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SUBJECT: ICELAND WANTS IMF REVIEW TO TAKE PLACE ON SCHEDULE

REF: Reykjavik 3

**¶1.** (SBU/NF) On January 11, Minister of Finance Steingrimur J. Sigfusson called in CDA to express the Icelandic government's desire for the IMF review to take place as scheduled and to seek USG support within the IMF. (Note: Prior to the President's refusal to sign the Icesave bill into law, the next IMF review was expected to take place in mid-January. End note.) Sigfusson stated that he was briefing key countries and, in fact, the Chinese Ambassador was next in line. He noted that the government and parliament had done what was required by the IMF. Further delay of the IMF program, he stated, would increase enormously the additional negative economic effects caused by the president's decision. Although Iceland does not need funds urgently, he said, receiving the next tranche would help bolster confidence in the system. Building up the reserves would also make it easier to implement the next phase of lifting capital controls and help stabilize the interest rate.

**¶2.** (SBU/NF) Both Sigfusson and Prime Minister Johanna Sigurdardottir continue to reach out to their counterparts in the UK, Netherlands, and the Nordic countries. Sigfusson just returned from a trip to Norway and Denmark, and has been in contact with British Chancellor of the Exchequer Darling and Dutch Finance Minister Bos, while Sigurdardottir has communicated with the British and Dutch Prime Ministers. Sigfusson said that neither the UK nor the Dutch have shown any flexibility and continue to demand that Iceland honor the deal; however, all three countries remain committed to keeping open lines of communication.

**¶3.** (SBU/NF) Sigfusson, contrary to media reports, expressed doubts regarding the possibility of enlisting a mediator or renegotiating the Icesave deal. Although the GOI will not exclude these possibilities, it is moving forward in anticipation of the referendum and plans to argue for a "yes" vote from the electorate. It is also unlikely, he said, that the GOI would consider recalling the bill, thus negating the need for a referendum, without a realistic option on the table.

**¶4.** (SBU/NF) Sigfusson acknowledged that the President's decision injected additional political uncertainty into the situation. Although he would not categorically state whether or not the ruling coalition would fall should the Icesave referendum fail, he admitted that the Icesave issue will likely hurt the coalition's chances for reelection.

**¶5.** (SBU/NF) CDA expressed continued USG support for Iceland's IMF program and reiterated the USG's position of neutrality and desire for a speedy resolution regarding the Icesave issue. Sigfusson was pleased to hear that details of the meeting would be shared with Treasury and indicated a desire to speak directly with DAS

Christopher Smart about Iceland's IMF program.  
WATSON